Dishonesty in the charitable sector

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Non-governmental organisations (NGOs) are acknowledged to be pivotal to poverty alleviation, especially in African countries where government capacity and revenues are often very limited. Despite their prominent role in developing countries, little is known about how these organsations function. In theory and policy analysis circles, NGOs are often presumed to have altruistic and pro-social motivations. For instance, advocates for the self-regulation of the non-profit sector frequently present the case for self-regulation primarily as a case against government intervention, arguing that government monitoring would threaten the sector's independence (Jordan and Van Tuijl, 2006). Government attempts to regulate the sector are regarded with suspicion (Antlöv, Ibrahim & van Tuijl, 2006; Kwesiga and Namisi, 2006) in the literature on the accountability of non-profit organisations, while the risks associated with self-regulation are rarely mentioned. The narratives and rhetoric suggest that NGOs are generally presumed to be well-intentioned do-gooders. There appears to be a tendency to depict non-profit organisations as innocent victims and the government as a perpetrator, interfering with the noble work of the non-profit organisation.

To balance such debates it is vital to acknowledge that non-profit organisations may in certain situations be prompted to make decisions that are devious, short-sighted or self-interested. In developing countries employment is usually scarce and aid flows and grants generally represent a big share of a country's revenue pool, which make NGO entrepreneurship or employment attractive options. Under such circumstances it may be imprudent to assume that only individuals with pro-social motivations and charitable missions select themselves into this sector. Fafchamps and Owens (2006) suggest that employees and managers in NGOs are often motivated by a complex and contradictory set of principles, aims and ambitions and that "many local NGOs seem to be created not with an altruistic motive in mind but for the purpose of obtaining grant funding" (2006:3).

In this context it is useful and relevant to study deception and misrepresentation among NGOs. However, up to now research on dishonesty in the non-profit sector has been occupied mainly with studying serious cases of fraud and corruption.[1] It is argued here that to better understand the hazards of information asymmetry in the non-profit sector – as well as the motivations and circumstances tied to deceitful behaviour – a more encompassing perspective is required, including also minor cases of misrepresentation.

Analysis of a representative sample of 300 NGO suggests that there is an alarmingly high degree of dishonesty and misrepresentation among NGOs in Uganda. For instance, in 39% of the cases where NGOs report that they ask the community about their needs before initiating a project, community members maintain that the NGO did not. Similarly, we find that in 38% of cases where NGOs claim to solicit feedback from communities, the community representatives say they received no requests for feedback. Misrepresentation of these two dimensions of community involvement overlapped in 69% of cases.

Furthermore, 62% of NGOs that refused or failed to provide estimates of balance sheet items told enumerators that they regularly compiled balance sheet and that these accounts were freely available to the public. In 47% of cases where NGOs were not willing to provide cash flow data the organizations reported that the NGO had such data and that they were available to the public upon request.

Why are these NGOs misrepresenting their behaviour and actions? This paper examines the discrepancy between what NGOs say they do and what they actually do in an attempt to understand why NGOs may choose to conceal the truth. May NGOs be lying to survive in a competitive funding market dictated by unrealistic donor expectations and pressures? Could it be that dishonesty is just a symptom of a sector-wide disillusionment with what they may perceive to be a set of restrictive, but ineffective rules and requirements for NGOs? Are NGOs not answering questions truthfully merely to protect themselves from an antagonistic government? Or are these fibs attempts to hide behaviour that they know to be fraudulent, inappropriate or inefficient?

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[1] See amongst others Greenlee, Fischer, Gordon and Keating (2007), Smith and Richmond (2007) and Gibelman and Gelman (2004)

The authors investigate the relative merits of each of these explanations for the observed patterns of dishonesty. Significantly, perceived altruism and competence do not have a significant relationship to misrepresentation. The latter may be interpreted as evidence that many altruistic NGOs may be pragmatic in their approach to ethics: pursuing unselfish ends, but without feeling confined by rigid ethical principles.

Although not consistently significant, the results provide tentative confirmation that government hostility may promote dishonesty. There is some evidence to support the view that NGOs may lie because they feel overburdened with donor demands, but the evidence is not robust. The analysis finds no relationship between dishonesty and a set of indicators designed to capture ineffectiveness and fraud.

The results suggest that the motive for lying may be contingent on the subject. Lying about financial transparency has a reasonably robust and significant association with monitoring: organisations are more prone to lie about financial transparency when they are not subject to the scrutiny of an independent monitor.

When it comes to community involvement, NGO misrepresentation appears to be mainly an effort to uphold one's reputation. Additionally, a penchant for rule-based ethics is associated with a significant reduction in the likelihood of misrepresentation of the community's participation in NGO projects. An independent monitor did not reduce the tendency to lie about community participation.

1. Information asymmetry in the NGO sector

Much of the theoretical work on non-profit organisations and non-governmental organisations (NGOs) crudely assume that the decision makers in non-profit organisations are altruistic or motivated by non-monetary preferences.[2] However, the empirical research

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[2] The assumption of altruism occupies a central space in the literature on the role and behaviour of non-profit organisations. According to the contract failure theory (Hansmann, 1980; Thompson, 1980; Fama and Jensen

on motivations in this sector is not robust enough to justify such a bold assumption. If instead it is acknowledged that decision makers in this sector can be positioned on any point on the continuum of selfishness and altruism, it is becomes clear that NGOs may face a moral hazard dilemma due to the difficulties relating to observing and verifying NGO behaviour.

The NGO's relationships with its beneficiaries and funders are fraught with information asymmetries. For instance, when donors are based in North America or Europe with no presence in the local country, the physical distance may make it prohibitively expensive for the donors to visit and observe the outcomes of the some of the NGO projects that they are funding. In such cases donors may be fully reliant on second-hand information, which in many cases may be reported by the NGO itself. If the donor is not familiar with local circumstance and culture and have no benchmarks for cost comparisons, the interpretation of accounts and reports may be a further obstacle to assessing the performance of the NGO. Similarly, beneficiaries cannot always observe all the relevant dimensions of a good or a service produced by an NGO. Children whose parents have never been to school may not be able to assess the quality of teaching their children are receiving. Due to these information asymmetries it may be easier for NGOs in developing countries to underdeliver without being detected.

Furthermore, there may also be a moral hazard problem due to the often relatively short and once-off nature of development projects and the custom of structuring funding to NGOs as large, upfront payments. In many cases after the last installment of a grant has been paid to the NGO, the funder retains little direct power over the NGO, and NGOs may thus have an opportunity to renege on the deal. Contracts are cumbersome and costly to enforce and far from watertight. If the decision makers are not constrained by the initial commitment and

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1983) the emergence of the nonprofit sector can be viewed as a response to a moral hazard problem attributable to the difficulties experienced by consumers in discerning the quality of certain goods, but especially services (e.g. health care and day care). It was argued that in such cases incentives exist for for-profit organisations to lower their costs by reducing the quality of the good or service. Consequently, consumers would prefer non-profit organisations because these organizations had no such incentives – at least according to the theory – due to the nondistribution constraint. However, these arguments are built on bold implicit assumptions with little empirical basis.

not fully altruistic, then there is a danger that they may make decisions that are to the detriment of the beneficiaries, the donors and the NGO project.

Additionally, the non-profit sector has traditionally been subjected to less stringent government regulation than the for-profit and public realm – this despite the deficit in sectoral disciplining mechanisms due to the comparatively weak, informal and arbitrary nature of the sanctioning power of consumers and beneficiaries in this sector. In the for-profit sector consumer choice helps to provide feedback. In cases where the quality of services and products is observable companies that are less effective or efficient than their competitors are expected to struggle to retain customers and may eventually have to close their doors. In the public realm a politician's poor judgment and ineffective management can be punished by voting for one of his opponents. Anticipating such behaviour can help keep politicians in check. In the non-profit sector there are no analogous mechanisms to motivate NGOs to care about the plight of their consumers and beneficiaries. NGO beneficiaries cannot vote against exploitative or corrupt NGOs. NGO beneficiaries cannot punish organisations that are unreliable or rude by ceasing to do business with them.

These outlined information problems are frequently exacerbated in developing countries. The increased physical distance between the developed country funder and the developing country beneficiary raises the cost of sending and gathering information. Due to the high rate of unemployment and often also a dearth of other lucrative entrepreneurial activities with low set-up costs, it may be imprudent to assume that employees and entrepreneurs in this sector are attracted to this sector by altruistic motivations – as some developed country theory models would predict. Additionally, the institutions of developing countries are often not as mature and robust, which weakens the impact of any legal deterrence.

2. Ugandan NGO survey 2002

The study uses a representative 2002 survey of the Ugandan NGO sector, which incorporates two modules: i) a NGO questionnaire to collect information on the organisation's structure, finances and activities and ii) a community focus group interview to

explore how the organisation is perceived by community members. By capturing both community perceptions and organisational characteristics, the survey enables researchers to postulate links between community perceptions such as the value added by the organisation and self-reported organisational features such as the organisation's size and its skilled work force.

The sampling frame for the first survey module (NGO questionnaire) was constructed via a mini-census of the NGO population of 14 districts. The survey sample (298 observations) was drawn from this sampling frame. The questionnaire is extensive and has 255 questions including information about funding, ownership, expenditure, assets and governance. The data were captured on organisational-level and not on project level.[3]

The second survey module is a community focus group. In each community that was visited, six to ten focus group participants were recruited via a community leader. Communities were identified by asking NGO surveyed to identify a number of parishes where they worked. In this way parishes were matched to NGOs. However, some community focus group sessions could not be matched back to the specific NGOs that they were intended to review because the NGO was not always known to the focus group. In cases where the focus group members did not know the NGO they assessed an alternative NGO, which was often not part of the sample for the first module. The community focus groups collected information on the focus group members' perceptions regarding poverty in their community, community needs and those who help the community meet these needs. It also asked more detailed questions about the perceived contribution of one specific NGO working in the parish.

The first module of the survey (NGO questionnaire) can be matched to 205 of the 268 observations from the second module (community focus groups). There were also cases

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[3] Some organisations claimed to not have financial information available and in other cases, where the information was available, the bookkeeping system appeared to be unreliable. Due to the intricate accounting involved in allocating overheads to projects, it is expected that information availability and quality would have been substantially worse on project level. It is also likely that a project level approach may be unfeasible for studying Ugandan non-profit organisations due to the lack of regard for specialisation and focus within these organisations. Barr, Fafchamps and Owens (2005) find that many Ugandan NGOs seem to 'do it all' listing a vast array of activities and 'focus areas' that they are involved in. Due to the organisation-level approach of the survey the sample consequently includes a wide variety of NGO subsectors.

where some NGOs were linked to more than one community. To avoid problems with the error terms, 19 duplicates were eliminated randomly, reducing the sample to 186 observations. Barr, Fafchamps and Owens (2005) and Barr and Fafchamps (2004) provide more information regarding the survey questionnaire and focus group interviews respectively. Appendix A describes the matching between the two modules in more detail. The appendix also investigates bias introduced by the loss of observations due to the matching, but concludes that there is little evidence of such bias based on a number of key observables. This does not however exclude the possibility that there may be bias based on unobservable factors.

3. Misrepresentation among Ugandan NGOs

Analysis of this data set shows that organisations frequently provide inaccurate information. For instance, examining the sample of NGO's track record re community participation, it is clear that the descriptions given by NGOs are not always aligned with community accounts of the situation. Given the asymmetry of the misalignment of information (NGOs report lower levels of community participation than the community in only a negligible number of cases)[4] and a plausible motive for misrepresentation,[5] these anomalies are interpreted as evidence that a large share of these NGOs purposefully misrepresent themselves.[6]

91% Of NGOs report that they ask the community about their needs and 96% of NGOs report that they ask the community for feedback during or after a project. This is in stark contrast to the much lower prevalence of community involvement cited by the community

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[4] There are 4 such cases for community needs assessment and 3 for feedback.

[5] NGOs may have an incentive to pay lip service to this idea. They may be ashamed of not consulting the community given that community participation is widely viewed as an "unqualified good" (Khwaja, 2004:428). Although unwarranted due to the survey's confidentiality guarantee, it is conceivable that NGOs may be concerned that revealing the truth (re their lack of involvement of community members in their projects) may affect their grant income. There is no equally compelling incentive for the community to depict the situation in a more negative light.

[6] It is however important to note that the authors do not think that the entire discrepancy is attributable to misrepresentation. There are also other explanations for these discrepancies. For instance it may be because of geographical variation: the NGO's answer may outline standard or typical practices across the geographies where the organizations work whereas the community focus group answers are based on the impressions of a number of representatives from a specific parish. Some of the difference may also be due to misunderstanding of the question. However, these two explanations cannot account for the size and asymmetry of this difference.

members' focus groups. Just 54% of the communities said that the NGO asked community members about their needs while only 59% of communities reported that they were requested to give feedback.

In 39% of the cases (i.e. for 73 of the 186 matched NGOs in the sample with data available for such a comparison[7]) the NGO reports that they ask the community about their needs before initiating a project, while the community maintains that they do not. Similarly, we find that in 38% of NGOs (71 of 186 NGOs) claim to solicit feedback from communities when the community representatives say they received no requests for feedback. There is a remarkable extent of overlap between the cases of misrepresentation with regards to community needs assessments and soliciting community feedback: 69% of NGOs that claimed to ask the community about their needs before a development project and appear to not do so also reported that they solicit community feedback and ostensibly did not. According to the Pearson's chi-squared test the hypothesis that the two indicators are independent cannot be accepted (Pr =0.000).

There are also other cases of apparent misrepresentation. In their analysis of the same data set Barr, Fafchamps and Owens (2005) conclude that the actual prevalence of external auditing may be considerably lower than the high levels that are reported in the survey. Many of the allegedly externally audited accounts contained numbers that were either implausible or did not tally with other figures given. 79 NGOs in this matched sample claimed that the public had access to their accounts and these accounts were externally audited. Yet more than half of the members of this group were either unwilling or unable to provide accounts upon request or their accounts contained several careless mistakes or discrepancies that made it unlikely that it was a true reflection of the company's cash flow and asset base. 62% of the NGOs that were unable or unwilling to provide estimates of their assets told enumerators that the NGO compiled balance sheets on a regular basis and that these were available to the public. Almost half of the NGOs (47%) that refused to give data when the enumerators requested cash flow information had reported elsewhere in the questionnaire that such accounts were kept and available to the public upon request.

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[7] The matched sample refers to the sample resulting from merging the NGO questionnaire's sample with the community focus group information.

Furthermore, during the community focus group work it was observed that in 11% of cases communities did not know or recognise NGOs that claimed to work in their parish. While it is of course conceivable that an NGO can be legitimate and effective without being widely known in the parish, the authors feel that this explanation cannot convincingly account for the full 11% discrepancy observed given that parishes are quite small and that each of the parishes were identified as a community where the NGO was working. It must be borne in mind that this 11% comes on top of a large share (70% to 85%) of registered NGOs were eliminated from the sample because they were not found. Based on the low share of registered NGOs that could be located as well as anecdotal evidence, Barr, Fafchamps and Owens (2003) assert that a considerable proportion of Ugandan NGOs appears to be briefcase NGOs that have a shadowy existence when they do not receive an external grant.

4. Examining factors associated with dishonesty

Why do NGOs choose to not accurately reflect their activities? Why do they misrepresent their financial transparency and community involvement? Four types of factors can conceivably contribute to misrepresentation: having something to hide, having a motive to hide it, being able to hide it and an indifference to concealment of the truth.

4.1   Something to hide: Ineffectiveness and fraud

Organisations may lie because they have a skeleton in the closet. They may have misallocated funds or in other ways not acted in the best interest of the project's funder and/or the beneficiaries.

The authors opt for using beneficiary assessments of the impact and value of the NGO, including questions on how important the NGO is in the community, how satisfied the beneficiaries were with the NGO's performance, whether they would notice if the NGO would disappear and the estimated value added by the NGO. While these indicators may not measure effectiveness with precision, they should be able to identify severe cases of ineffectiveness and corruption that the community members are able to detect. Financial

variables are avoided due to the high incidence of missing values and because data availability is expected to be correlated with corruptness and ineffectiveness.

4.2.1 Motives for hiding the truth: Retaining one's reputation

While reputation is expected to affect misrepresentation, it can have a negative or a positive effect. On the one hand reputable organisations may have more to lose from being exposed as a liar than a lesser known organisation or an organisation of disrepute. On the other hand reputation may also increase the likelihood of lying to "save face" because it raises the stakes. The relative size of these two opposing influences depend on the likelihood of being exposed as a liar and the reputation loss associated with such news versus the reputation loss associated with a public acknowledgement that your organisation is not financially transparent or does not involve the community in your projects.

Based on Yi and Mullineaux (2004) and Hörner (2002)'s work the authors use perceived competence and the years of existence of the organisation to capture the influence of reputation.[8] Perceived competence was captured by asking the community focus group whether they thought the NGO staff were good at what they did. The answer was coded on a Likert scale.

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[8] In formal notation, if the "true" model is:

$$\delta = a\upsilon + b\rho + c\mu \tag{1}$$

It is further assumed that the only influence that is difficult capturing with available data is ρ and the candidate proxy is ϑ. There are two conditions a suitable proxy must meet. Firstly, the variable needs do be redundant in the structural or "true" model. In formal notation, this can be represented as

$$E(\delta|\upsilon,\rho,\mu) = E(\delta|\upsilon,\rho,\mu,\vartheta) \tag{2}$$

If a candidate proxy variable did not meet this criteria and it was significant when added to the "true" model, it would mean that the variable has an impact and interpretation over and above that of a proxy for the omitted variable, which of course implies that it is not an appropriate proxy. A second condition, which is imposed frequently, but not always, requires that after the inclusion of the proxy variable the other regressors should not be partially correlated with the unobservable variable for which we are attempting to proxy. The coefficients will not be consistent without the second condition. However, even if the second condition does not hold, there may still be an argument for using the proxy variable if its inclusion may reduce the bias of the estimates. According to Wooldridge "this can usually be argued if [the proxy variable] is a reasonable proxy"(2002: 64). Also see Wickens (1972) in this regard.

4.2.2 Motives for hiding the truth: Unreasonable donor demands and funding pressure

Alexander (1998) highlights the complex and conflicting demands NGOs often face, trying to juggle their own mission and commitments, the requirements of donors, the needs of beneficiaries and the concerns of the wider community. One of the responses to complexity Alexander has observed in her case studies is *deflecting*, where the NGO "limits the amount of external complexity that enters the organisation" (1998: 277). Misrepresentation can be conceived as a useful deflection strategy in situations where NGOs may disagree with some of the demands of donors because meeting these demands may for instance put excessive strain on the organisation or conflict with the NGO's core mission. In a competitive funding environment NGOs that want to resist unreasonable or intrusive donor demands may choose to misrepresent their activities instead of openly defying the donor's requirements.

Likewise, NGOs may choose to represent their activities in a more positive light and to gloss over their shortcomings and failures because of funding pressure. Edwards and Hulme (1996) warn against the trend of manipulating and controlling information to project a more positive and rosier public image of the organization. Chambers (1996) argues competitive pressure for grant funding may tempt NGOs to misrepresent themselves. A survey of annual reports of NGOs found that annual reports are "overwhelmingly positive in tone" and that most of the text was devoted to describing the organisation's achievements (Bolton, 2003).

The influence of disillusionment with donor rules can be measured by accounts/report submission fatigue (using the number or reports or accounts that the NGO was required to submit per year). The effect of exposure to competition for donor funding is represented by a binary variable indicating whether or not the organisation currently had a grant and a continuous variable showing the proportion of income derived from grant and donor sources.[9]

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[9] Missing values were supplemented based on the average values for organisations with and without grants.

4.2.3   Motives for hiding the truth: Government antagonism

NGOs may avoid becoming more transparent if they have something to hide. Some NGOs' mission and aims may require them to keep information confidential. It is conceivable that an advocacy organisation that has an adversarial relationship with the government may need to keep their funding information and their planned interventions hidden from the government to protect itself.

Four indicator variables are proposed to capture this effect: whether the NGO was involved in advocacy activities, whether it viewed the government as a hindrance, whether the respondent felt that government staff was resentful towards the NGO and whether the NGO believed that government dictates were one of its main constraints.

4.3   Opportunities for hiding the truth: The effect of monitoring

NGOs that are closely monitored or tightly regulated should have less opportunity to misrepresent themselves. Regulation and monitoring is expected to improve outcomes by reducing the lure of diverting funds or staff time via better observation of inputs and outputs and improved information.

To ensure that the variable measuring monitoring only includes direct observation by a third party, it is limited to cases where the community reports that another NGO or organisation asked them for feedback about the NGO in question.

4.4   Aversion to dishonesty: Altruism and rule-based ethics

The paper also investigates the impact of the principles and morals of the employees on truth-telling. To what extent may the NGO's culture or values make it more or less likely to misrepresent its activities?

Given the emphasis on altruism in this sector, it is natural to ask whether altruism has a significant impact on misrepresentation. In his review of altruism in the non-profit sector, Wolfe (1998) distinguishes between behavioural and motivational altruism. Evocative of the classical dichotomy of means versus ends, behavioural altruism considers the actual behaviour of an organisation or individual, while motivational altruism focuses on the goal

or the intention. In a similar vein it seems credible to conjecture that perceived altruism may not coincide perfectly with a tendency to lie. The altruism variable was constructed using the community focus group question regarding the perceived selfishness of NGO staff (coded on a Likert scale).

The authors also investigate the effect of rule-based ethics. It is argued that individuals and organisations may find it easier to condone and accept misrepresentation when it is viewed as a "white lie" that is required as a means to a laudable end. Experiments by Gneezy (2005) show that all lies are not treated equally. Individuals take account of the size of the loss incurred by others as result of fibbing in evaluating the fairness of a lie. Many may view misrepresentation of community involvement or financial transparency as a white lie because they may believe that there are no tangible, direct, large, negative consequences for others. It is here conjectured that such ethical pragmatism will be less prevalent among religious organisations due to the latter's traditional endorsement of rule-based ethics. Rule-based ethics is thus captured by an indicator variable signaling the religious affiliation of the NGO.

5. Results: Why are NGOs dishonest?

The empirical model is set up as a core model with a number of additional hypotheses examined via repeated tests. The core model includes the three influences that are considered the most robust according to the literature, namely dishonesty aversion (altruism and rule-based ethics), reputation and monitoring. After the core model is estimated, variables representing these additional hypotheses are added to the model.

A Heckman probit selection model is specified to investigate relationships with financial transparency and community involvement and also the misrepresentation of transparency and community involvement. A Heckman selection model is required because lying is only a temptation for a subsample of observations, namely those that deviated from accepted guidelines in this sector and decided to not be transparent and to not involve the community. After they decided to not be transparent and to not involve the community, the NGO faces a decision re whether or not to misrepresent the organisation's actions.

To measure financial transparency, we consider the willingness and ability of an NGO to provide information regarding their assets, their income and their expenditure.[10] An NGO was viewed as misrepresenting their financial transparency if they did not provide asset value estimates, but they claimed that they compiled accounts and that these were available to the public upon request or if they did not provide expenditure or income data, but told enumerators that this data was captured and was made available to the public.[11]

To measure accountability, we consider whether the organisation asked the community about their needs prior to a project and requested feedback from the community after a project. We asked both a community focus group and a representative from the NGO to answer this question. Actual involvement of the community was taken to be represented by the community focus group's response.[12] The survey asked the NGO and the focus group about two dimensions of community involvement, i.e. needs assessment and feedback from community. To ensure that we err on the side of caution in our attempts to identify possible cases of misrepresentation, we only identify an observation as a case of possible misrepresentation if the NGO reported that it both asked the community about its needs and solicit feedback and the community focus group said it did neither.

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[10] If the NGO failed to provide an estimate for the total value of their cars, equipment or inventory – after confirming that they did own such assets or did not give an estimate for their total expenditure (neither 2000 nor 2001) or did not provide an estimate for total income (neither 2000 nor 2001), the organization was classified as not being transparent with regards to their finances. Here the focus is on not cases where no information was provided rather than where inaccurate information was provided, because it is more difficult for us to detect cases in the latter category. As detailed in the previous paragraph, in the second stage the focus was on those organizations that were not transparent. The rest were coded as missing.

[11] Rules such as this one can create a set of observations that will be likely to include most of those NGOs that misrepresent their transparency, but it is important to note that it may also erroneously include other NGOs that do not belong in this set; where for instance the respondent was merely misinformed regarding the organisation's transparency or where the financial information could not be provided at the time of the survey because the accountant was ill or on holiday. We expect this noise to be unbiased and uncorrelated with the independent variables in the regression.

[12] The community focus group's answer with regards to community participation was treated as reliable because we could find little analytical reason to suspect an incentive for misrepresentation among community members and because misrepresentation among a group has a higher cost because it requires coordination. These assumptions appear reasonable accurate as we find only a negligible number of cases where the community reported participation and the NGO did not, while NGOs often claimed to involve the community when the focus group reported that they did not. We acknowledge that there may be legitimate reasons for discrepancies between these two answers, but that we expect the answer to concur in the majority of cases. Again, the variable is thus measured with error, but we will assume that this noise is unbiased and uncorrelated with the independent variables in the regression.

Table 1 reports the findings from the Heckman selection models. The way the models are set up it is presumed that a different set of factors are associated with the likelihood of involving the community in projects and the likelihood of making your organisation's financial data available when asked for it, but that lying about community involvement and financial transparency are associated with the same set of factors.

The model of the likelihood of *not* involving the community (based on the community focus group's answer) includes the proportion of funds from local donations and fees, selfishness, number of staff, age of NGO manager and independent monitoring. The results show that selfishness is associated with a lower likelihood of involving the community, while monitoring is associated with a higher likelihood. Predictably, having more staff members is linked with a higher likelihood of community participation. The proportion of funds from local sources and the age of the manager were both not significant.

The model of the probability of *not* providing financial data is shown on Table 1 and includes the number of staff, the age of the manager, monitoring, the number of accounts that the NGO is required to submit each year, whether the NGO has a grant, the share of workers that are professionally qualified, whether shortage of skilled staff is listed as a constraint and whether the NGO believed that the government was resentful towards the NGO. If the manager is older, the NGO is more likely to provide data on the organisation's financial position. Organisations with grants, a higher share of professionally qualified workers and with fewer accounting reports to submit each year would also be more likely to provide information. Additionally, NGOs that perceive their relationship with government to be antagonistic are less likely to provide access to this data. The remaining variables – namely, independent monitoring, number of staff members and shortage of skills being listed as a constraint – do not have significant coefficients.

In Table 1 the model of lying about either community involvement or financial transparency is tagged as the core model and includes six variables: religious affiliation, perceived selfishness, competence, years of existence, the square of the years of existence and independent monitoring. Although it is initially presumed that the same factors are associated with both forms of misrepresentation, the results suggest that there is no overlap

in the factors that are significantly associated in the two core models. NGOs that did not involve the community are more likely to claim that they did so if they had existed for longer and presumably have more of a reputation to risk by admitting that they do not. Also, NGOs that have a religious affiliation are less likely to lie. In terms of financial transparency the results imply that the main factor that matters is monitoring: NGOs that are monitored independently are less prone to say that they are financially transparent when they are in fact not.

Based on the results of the Heckman, the rest of the models omit the selection model component. In Table 2, 3 and 4 additional hypotheses are tested via probit models of the core regression (examining the likelihood of dishonesty). Table 2 examines the impact of unreasonable donor demands and a competitive funding environment. Four variables are used to approximate these influences, i.e. having a grant, proportion of revenue from grant, the number of reports the NGO is required to submit per year and the number of account it is required to submit per year. In line with expectations, NGOs that are reliant on grants for a larger share of their funding are significantly more likely to misrepresent their financial transparency. However, at the same time NGOs that have a grant or are more reliant on grants are also more likely to be truthful about their involvement in the community. Similar to the effect of reputation, it is conceivable that having a grant or being dependent on grants may increase the stakes for NGOs. The discrepancy observed here may thus relate to how observable and detectable the lie is. It may generally be easier to discover and prove negligence to involve the community than a lack of financial transparency. The only evidence of report submission fatigue is the significant and positive coefficient on the number of accounts that has to be submitted per year in the model for community participation misrepresentation.

Table 3 considers if hostile government relationship can shape truth-telling. This influence is assessed using four variables: the NGO's engagement in advocacy, the NGO describing the government as a hindrance, the NGO asserting that they feel that government staff is resentful and the NGO citing government dictates as one of its main constraints. Advocacy activities appears to have a positive and significant effect on lying re community

involvement, while viewing government dictates as one of the main constraints has a positive and significant impact on the likelihood of misrepresenting financial transparency.

Table 4 explores the relationship between lying and corruption. The variables used are beneficiary assessments of the impact and value of the NGO, including questions on how important the NGO is in the community, how satisfied the beneficiaries were with the NGO's performance, whether they would notice if the NGO would disappear and the estimated value added by the NGO. These variables are meant to capture serious cases of corruption or inefficiency that would be observable to beneficiaries. None of these four variables are significant in any of the regressions. This may be because the most serious cases of corruption have already been eliminated from this sample. Briefcase NGOs without an office or permanent staff often had to be dropped from the sample because they are so difficult to pin down and may cease to exist in all observable ways for long periods between grants. Furthermore, we have had to remove all NGOs that were not known in the parishes where they said they worked because there were no community focus group observations that we could match to these organisations.

Conclusions

The findings of this work caution against an overly naïve view of NGOs and also specifically an overreliance on reported information when regulating, monitoring or surveying NGOs. It also emphasises the value of independent monitoring and regulation in a sector where the effectiveness and appropriateness of monitoring and regulation are often disputed, ostensibly at least partly because of the conventional association of this sector with pro-social values and altruism.

According to the analysis presented here there is no evidence that perceived altruism and competence have significant relationships with misrepresentation. The insignificance of altruism may suggest that many altruistic NGOs may be pragmatic in their approach to ethics. Their main focus of these altruistic NGOs may be on their aims or their ends, with less emphasis on the means. Given that there is support from the literature that some NGOs

may construe these cases of misrepresentation studied here to be "white lies", the most prudent interpretation of the findings may be that altruistic NGOs might have some tolerance for minor digressions in service of the greater good.

Although not robust, the results indicate that perceived government antagonism may encourage dishonesty. There is partial and tentative support for a view that NGO misrepresentation can be attributed to excessive and unrealistic donor demands. There is no evidence of a relationship between dishonesty and the set of corruption and ineffectiveness indicators, but this may be partially due to the difficulties relating to surveying briefcase NGOs and the communities served by ineffective and corrupt NGOs. Due to these difficulties, many such observations are eliminated.

The analysis suggests that the motive for lying may be depend on the subject matter. With regards to financial transparency the analysis indicates that motives for lying are less robust correlates of the likelihood of lying than the opportunity for dishonesty, i.e. monitoring. When it comes to community involvement, NGO misrepresentation is associated with "saving face". Additionally, a proclivity for rule-based ethics is associated with a significantly lower likelihood of misrepresentation of the community's participation in NGO projects.

TABLE 1: Heckman probit for community participation and financial transparency				
	Community participation		Financial transparency	
Core regression: misrepresentation	Coefficient	P-value	Coefficient	P-value
Religious affiliation	-0.84*	0.04	0.06	0.86
Selfishness	-0.09	0.70	0.003	0.99
Competence	0.15	0.46	0.03	0.91
Years of existence	0.14*	0.05	0.05	0.56
Years of existence squared	-0.005*	0.03	-0.001	0.51
Independent monitoring	0.24	0.76	-1.24*	0.02
Constant	0.29	0.87	-0.46	0.70
Selection				
Proportion of funds from local donations and fees	0.28	0.69		
Selfishness	0.19*	0.02		
Total nr of staff	-0.0005*	0.02	0.001	0.71
Age of NGO manager	-0.02	0.20	-0.03*	0.05
Independent monitoring	-2.00*	0.00	-0.21	0.50
Number of accounts required to submit per year			0.10*	0.06
Does the NGO have a grant?			-1.62*	0.00
Share of professionally qualified workers			-0.74*	0.04
Shortage of skilled staff cited as constraint			0.06	0.83
Antagonistic relationship with government			0.60*	0.03
Constant	0.51	0.41	1.12*	0.05
Diagnostics				
Athrho	0.23	0.89	0.34	0.71
LR test of independent equations (rho = 0) Prob > chi2	0.02	0.89	0.14	0.71
Observations				
Total number of observations	164		165	
Censored observations	80		105	
Uncensored observations	84		60	

Note: An asterisk is used to indicate that the coefficient is significant at the 10% level of significance

TABLE 2: Examining the potential influence of exposure to unreasonable donor demands and funding competition

	Community participation				Financial transparency			
Religious affiliation	-0.76*	-0.87*	-0.84*	-0.72*	-0.16	-0.16	-0.13	-0.10
Selfishness	-0.04	-0.12	-0.13	-0.15	-0.03	0.05	0.02	0.07
Competence	0.14	0.13	0.17	0.14	0.1	0.21	0.09	0.18
Years of existence	0.28*	0.21*	0.14*	0.10*	0.05	0.05	0.08	0.05
Years of existence squared	-0.01*	-0.008*	-0.005*	-0.005*	-0.001	-0.001	-0.002	-0.001
Independent monitoring	0.66	0.61	0.32	0.30	-1.17*	-0.06	-1.23*	-1.52*
Does NGO have grant currently?	-1.58*				0.9			
Proportion of revenue from grant		-1.21*				2.37*		
Number of reports required to submit per year			-0.06				0.003	
Number of accounts required to submit per year				0.28*				0.12
Constant	0.53	0.62	0.61	0.48	-0.55	-1.22	-1.11	-0.36
Observations	89	89	89	86	66	66	66	63
Prob [Wald] >chi2	0.01	0.01	0.00	0.03	0.07	0.09	0.03	0.19
Pseudo R-sq	0.28	0.21	0.18	0.17	0.13	0.11	0.14	0.11

Note: An asterisk is used to indicate that the coefficient is significant at the 10% level of significance

TABLE 3: Examining the potential influence of an antagonistic relationship with government

	Community participation				Financial transparency			
Religious affiliation	-0.67*	-0.88*	-0.82*	-0.60*	0	-0.08	-0.11	-0.36
Selfishness	-0.19	-0.1	-0.12	-0.06	-0.03	-0.01	0.03	-0.02
Competence	0.21	0.14	0.19	0.15	0.08	0.14	0.07	0.10
Years of existence	0.08	0.12*	0.12*	0.11*	0.06	0.07	0.08	0.06
Years of existence squared	-0.004*	-0.004*	-0.005*	-0.004*	-0.001	-0.002	-0.002	-0.001
Independent monitoring	-0.05	0.43	0.37	0.39	-1.36*	-1.34*	-1.34*	-1.54*
Does the NGO engage in advocacy activities?	1.05*				0.4			
Does the NGO describe government as a hindrance?		0.4				-0.46		
Does the NGO feel that government staff is resentful towards the NGO?			-0.02				-0.29	
Does the NGO cite government dictates as one of its main constraints?				-0.06				0.67*
Constant	0.35	0.24	0.33	0.32	-0.72	-0.58	-0.47	-0.80
Observations	89	84	89	78	66	61	66	59
Prob [Wald] >chi2	0.00	0.08	0.04	0.48	0.17	0.25	0.21	0.18
Pseudo R-sq	0.21	0.14	0.14	0.07	0.12	0.15	0.11	0.13

Note: An asterisk is used to indicate that the coefficient is significant at the 10% level of significance

TABLE 4: Examining the potential influence of ineffectiveness or fraud

	Community participation				Financial transparency			
Religious affiliation	-0.83*	-0.77*	-0.73*	-0.78*	-0.12	-0.23	-0.13	-0.24
Selfishness	-0.10	-0.07	-0.18	-0.12	0.06	-0.01	0.02	-0.03
Competence	0.18	0.14	0.3	0.2	0.01	0.21	0.13	0.25
Years of existence	0.12*	0.12*	0.13*	0.13*	0.08	0.10*	0.08	0.12*
Years of existence squared	0.00*	0.00*	0.00*	0.00*	0	0	0	0.00*
Independent monitoring	0.38	0.32	0.35	0.37	-1.28*	-1.13*	-1.22*	-1.10*
Beneficiary community satisfied with NGO performance?	0.04				0.13			
NGO could disappeared without being noticed?		-0.15				0.2		
NGO important part of life?			-0.22				-0.08	
Perceived value added				-0.16				-0.86
Constant	0.20	0.86	0.82	0.36	-0.91	-1.63	-0.48	-0.86
Observations	89	89	89	87	66	66	66	63
Prob [Wald] >chi2	0.0431	0.04	0.03	0.06	0.1948	0.07	0.26	0.29
Pseudo R-sq	0.14	0.16	0.15	0.13	0.11	0.14	0.11	0.14

Note: An asterisk is used to indicate that the coefficient is significant at the 10% level of significance

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Appendix A: Data

A1. Matching observations from the NGO questionnaire and the focus group discussions

The main aim in matching observations from the two survey modules is to obtain an optimal balance between the number of matches and the confidence we have in the matching.

Matching was first attempted via the numbers assigned by the data entry workers. To maximise the number of matches achieved I also attempted further matching by looking at the correspondence of the names of the organisations in three fields: the name of NGO in the NGO questionnaire and name of NGO and name of actual NGO focus group discussions. In cases where there was a correspondence between all three of these fields or between two of these fields in cases where one of the two NGO focus group field were missing, these manual matches were added to the data. The rule was not enforced in a rigid way: trivial differences that were most plausibly due to typing or spelling mistakes were ignored.

Through this manual matching process we achieve an additional 13 matches. However, enforcing this rule of correspondence between the three fields consistently requires us to discard 8 of the first round matches. Consequently there is little difference in the number of matches achieved after the additional effort, but it is expected that the work has improved the accuracy of the matching. Just relying on matching via the assigned numbers we achieve a matching rate of 75% (cf. total sample size of focus group sample) and after the manual matching and enforcing the matching rule consistently, the matching rates edge upward to 77%.

A2. Eliminating repeated focus group evaluations of the same NGOs

A number of NGOs were evaluated more than once by focus groups. This appears to stem mainly from the way that this survey module has been set up. For each planned focus group

a specific NGO was selected as the NGO targeted for evaluation. According to the data there is a substantial degree of overlap in the degree of targeting. 31% of NGOs that were targeted for evaluation were targeted for more than one evaluation. 14% of 204 NGOs in the matched sample are observed more than once.

To use the data set as it is, inclusive of these duplicates, may bias estimates in at least two ways. The repeated observation of perceptions regarding a subsample of NGOs can be interpreted as overweighting these specific NGO observations. Giving a subsample of NGOs more weight is likely to affect the representativity of the sample and is expected to distort and bias estimates. Furthermore, in regression analysis the inclusion of such repeated observations will violate an often-made assumption that the errors are independent. The error terms of repeated observations of the same NGO is expected to be correlated.

Eliminating all but one of the observations for each of the 9 NGOs for which we have repeated observations results in discarding 19 observations. In the selection of 19 observations to be discarded we prioritised the elimination of the seven duplicated observations for which one of the three name fields (used to establish a match) was missing. Apart from this condition, the selection of observations for elimination was random. See below for more details on the occurrence pattern in the repeated observations.

Table A2: Patterns of repeated observations

Nr of repeated observations	Nr of NGOs
5	2
4	1
3	2
2	4
Total incidence of repeated observations	**28**

A3. Investigating possible bias in the reduced sample after matching

It is vital to investigate whether there may be bias in the attrition of the sample from 298 randomly drawn observations to the 186 observations that we can match with the focus group module. The focus group evaluations required the NGO to be known in the

community and we can expect that this may thus result in an underrepresentation of less effective NGOs, NGOs that are smaller or NGOs that do less visible work.

It appears that there is little discernable bias in the size of the NGO (as approximated by the revenue and expenditure). See the Kernel density graph below for more details. Effectiveness is not observable as a single variable and testing bias in this factor is therefore not straightforward.
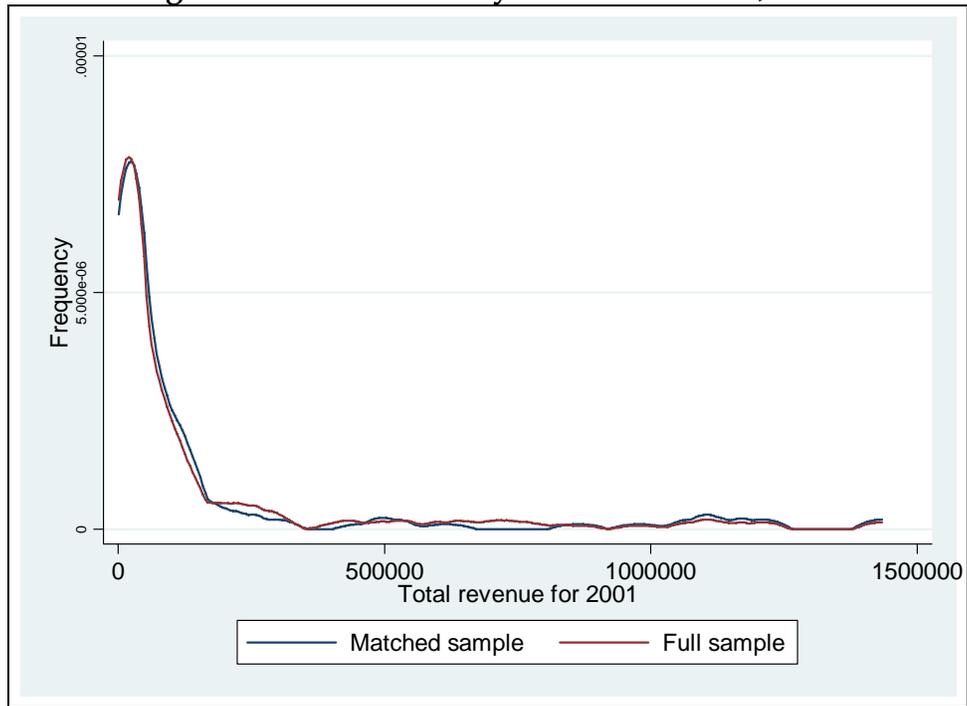
Figure A1. Kernel density for total revenue, 2001

Figure A2. Kernel density for total expenditure, 2001